Press Conference June 24, 2010

Transcript

Good afternoon everybody, Attorney General Martha Coakley, with me are Division Chief Glenn Kaplan, to his left is Assistant Attorney General Amita Singh, to her left is Assistant Attorney General Aaron Lamb, who are part of the team that worked on this case with Morgan Stanley. We are pleased to announce today a settlement that the Massachusetts Attorney General's office reached with Morgan Stanley regarding their role in subprime lending in Massachusetts. That settlement is in the amount of $102 million, I'll explain that shortly, but just wanted to in way of background say that this is the latest in a series of cases that we have undertaken investigating subprime mortgage lending particularly in Massachusetts.

When I took office in 2007, Massachusetts and this country in fact were in the early stages of what we now know to be a subprime mortgage meltdown and the resulting spiral in home foreclosures in Massachusetts was particularly hard hit. Since that time we have dedicated resources to seeking accountability and understanding the unfair and deceptive lending that thrived for several years leading up to 2007, but then nearly collapsed our economy.

We focused on the lenders that made predatory and unsustainable loans here in Massachusetts and on investment banks who played a critical role in enabling the unsound lending model to last for so long here. Our office has obtained some groundbreaking results and today we have a new, unprecedented settlement that continues toward the goal of corporate accountability for the subprime crisis.

The case in our investigation into Morgan Stanley's role in facilitating predatory lending by New Century was the focus of this and the settlement today, filed in Suffolk Superior Court, an Assurance of Discontinuance. In that agreement, Morgan Stanley has agreed to pay a total of $102 million to the Commonwealth and borrowers in the Commonwealth and has also agreed to structural changes in the way that it does business to make sure that we will prevent this facilitation of unfair lending in the future.

Now, as to this investigation we filed the detailed Assurance of Discontinuance. We allege the following, that New Century was one of the largest subprime lenders in the country. Morgan Stanley funded, purchased and securitized New Century loans. Morgan developed an intimate knowledge of New Century's business over time. And they uncovered signals pretty early on that the lending practices of New Century were not sound. Morgan Stanley continued to fund and securitize subprime loans even as New Century's bad loans were causing the lender to collapse and as we know they filed bankruptcy fairly early on in the process.

Morgan knew because as part of its business it had to review New Century's loan portfolio in that relationship. Morgan discovered that New Century was making loans that we allege were designed to fail. They started with low teaser rates, but then they kicked to higher interest rates that borrowers predictably could not afford and borrowers could only repay by financing. Now, in Massachusetts, since 2008, when the Supreme Judicial Court affirmed a finding in our Fremont case, affirmed a bedrock lending principle that you have to look at the ability to pay the loan for it to make, frankly good business sense, but certainly to be a fair act under our laws in Massachusetts in consumer protection.

As outlined in our agreement today, Morgan Stanley had a number of red flags that these practices were unfair. For instance, Morgan Stanley knew that New Century was using what we call "no doc loans," that is no documentation, loans with no paperwork, to the point of abuse. New Century was not following its own underwriting guidelines for these loans and New Century failed to account for whether borrowers could actually make payments after the introductory or the so-called teaser rates on the loans have expired.

Morgan initially refused to fund these loans, but after New Century threatened to pull their business, a Morgan banker approved hundreds of loans that their own compliance team had rejected and Morgan then softened its oversight to let New Century's business continue. Continued to fund New Century and provided the key financing that was needed to so that New Century could continue to make those loans. In terms of this agreement, under the Assurance of Discontinuance filed in Suffolk Superior Court, Morgan Stanley is required to make payments to its Massachusetts… payments relating to those Massachusetts practices totaling 102 million and to adopt new lending and securitization standards. Now if you look at the chart, we've broken it down for you. Fifty-eight million which includes almost 52 million in principle forgiveness for borrowers and then $6 million in foreclosure relief for borrowers will go directly to what has been a primary goal of ours for a while, which is to help keep people in their homes by placing them in a position where they can actually afford to refinance the loan or to pay a new appropriate loan.

As a result, the money will be used for this principal reduction. For instance a first lien loan will generally lead up to a 35% reduction, depending on the property's current value. For example, someone with a first lien performing loan from New Century that had been securitized by Morgan Stanley around $200,000, that borrower is now having difficulty continuing to pay that loan; under this settlement the reduction of the principal of the loan, the unfair loan, will be about $49,000, which will lower the monthly payments, which will make that loan, given remaining equity of the home and the income, something that he or she can sustain.

Now, in addition to that $58 million, 19.5 million is a payment to the Commonwealth. That will go directly to the General Funds in the Commonwealth of Massachusetts. Twenty-three point-four million dollar ($23.4 million) will go to stat entities that had investments that were, of which the portfolio included such subprime loans, those include the Massachusetts Municipal Depository Trust (the MMDT), and the Pension Reserves Investment Trust (otherwise known at PRIT), managed by PRIM, these two entities we allege and Morgan Stanley by agreement has given us those funds to restore that amount because the funds included investments in the subprime loans. Two million of the amounts will go to those individuals who had these loans who have been foreclosed upon by way of mitigation and relief.

Now this Assurance also bars Morgan Stanley from making unfair subprime loans in the future and requires it to use screens and other checking mechanisms to prevent originators of loans from using Morgan Stanley money to make unfair loans in Massachusetts. They are required by the agreement to make additional disclosures going forward, and we believe that those mitigating factors at least, in the near future, make sure that this kind of behavior doesn't happen again in Massachusetts.

The map to the right shows where the cluster of borrowers are located. It's over 1,000 loans, primarily New Century loans that were, again, financed and securitized by Morgan Stanley. You can see that there is a cluster in urban areas like Lowell, Lawrence, Chelsea, Revere, and Boston and Brockton, but there are loans that cover all of Massachusetts, and they will be beneficiaries of this agreement.

Morgan Stanley initially will be responsible for contacting homeowners, but any individuals who believe they may be eligible for this relief can contact our office, the number is 1-888-830-6277, they can visit our website and we'll certainly be happy to assist people in determining whether they can benefit from this settlement.

Now, our investigation revealed that Morgan Stanley backed loans for homeowners that they knew, or should have known, were destined to fail and then they failed to disclose the riskiness of those loans to investors. Their actions had a triple impact. First obviously, on the individual homeowners, those consumers, secondly on the tax payers in Massachusetts with the collapse of the market with foreclosures, with cities and towns suffering from foreclosures and abandoned properties, and ultimately the economy that was affected by this behavior.

Through today's action we've secured more than $50 million in relief to homeowners and investors and recovered more than $20 million for Massachusetts taxpayers. Unfortunately, what we've seen and continue to see as we continue this investigation is a pattern of Wall Street behavior, during this economic crisis that indicated a wiliness to make loans, that resulted in the behavior that we've just outlined as a pattern of behavior. And through our investigations that we continue beginning back in '06 and '07 with foreclosure rescue schemes, looking at Fremont, looking at, through, even though they filed bankruptcy; through Countrywide, and then with the settlement with Bank of America, we've been able, I think, to investigate and remedy some of the harm that was done by this behavior, and through all of those cases, through Goldman Sachs, Morgan Stanley, Countrywide, we've been able to recover more than $440 million for homeowners and investors. We've provided relief to 15,000 people in Massachusetts to help keep them in their homes and we provided $50 million recovery for the Commonwealth of Massachusetts. It's our intention to continue this work on these matters and to continue to get information about the behavior of players in this market, and who is accountable for the damage done and we're going to continue to assist consumers in the Commonwealth of Massachusetts.

I would be happy to take questions if anyone has any.